

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name INTERURBAN TRANSIT AUTHORITY	County ALLEGAN
Fiscal Year End 9/30/06	Opinion Date 11/16/06	Date Audit Report Submitted to State 1/17/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

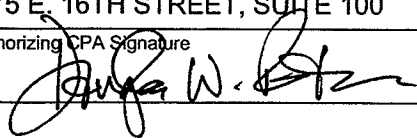
YES
O

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) FERRIS, BUSSCHER & ZWIERS, P.C.		Telephone Number (616) 392-8534	
Street Address 675 E. 16TH STREET, SUITE 100		City HOLLAND	State MI
Authorizing CPA Signature 		Printed Name DOUGLAS W. ROTMAN	Zip 49423
		License Number 1101019033	

INTERURBAN TRANSIT AUTHORITY

COUNTY OF ALLEGAN, MICHIGAN

FINANCIAL STATEMENTS

SEPTEMBER 30, 2006

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FINANCIAL STATEMENTS

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November 16, 2006

Board of Directors
Interurban Transit Authority
Douglas, Michigan

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of Interurban Transit Authority, County of Allegan, Michigan as of and for the year ended September 30, 2006, as listed in the index. These financial statements are the responsibility of Interurban Transit Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Interurban Transit Authority, County of Allegan, Michigan as of September 30, 2006 and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. Management has elected to omit the Management's Discussion and Analysis from the required supplementary information.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2006 on our consideration of Interurban Transit Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

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INTERURBAN TRANSIT AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006

ASSETS

CURRENT ASSETS

Cash and equivalents	\$ 136,607
Investments	95,044
Due from federal and state governments	50,624
Other receivables	4,037
Interest receivable	1,230
Prepaid insurance	<u>6,092</u>

TOTAL CURRENT ASSETS	\$ <u>293,634</u>
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NONCURRENT ASSETS

Capital assets	
Land	\$ 27,531
Other capital assets, net of depreciation	244,799
Prepaid retirement contribution	<u>56,255</u>

TOTAL NONCURRENT ASSETS	\$ <u>328,585</u>
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TOTAL ASSETS	\$ <u>622,219</u>
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LIABILITIES

CURRENT LIABILITIES

Accounts payable	\$ 8,778
Employees' funds withheld	1,117
Accrued liabilities	
Wages	6,400
Payroll taxes and benefits	2,071
Compensated absences	<u>3,570</u>

TOTAL CURRENT LIABILITIES	\$ <u>21,936</u>
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NET ASSETS

Invested in capital assets	\$ 272,330
Unrestricted	<u>327,953</u>

TOTAL NET ASSETS	\$ <u>600,283</u>
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See notes to financial statements

INTERURBAN TRANSIT AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED SEPTEMBER 30, 2006

OPERATING REVENUES	
Demand response (farebox)	\$ <u>49,797</u>
OPERATING EXPENSES	
Operations	\$ 423,724
Maintenance	67,381
General administration	<u>136,460</u>
TOTAL OPERATING EXPENSES	\$ <u>627,565</u>
OPERATING LOSS	\$ <u>(577,768)</u>
NONOPERATING REVENUES (EXPENSES)	
Tax levy	\$ 173,493
State operating grants	224,166
Federal operating grants	93,954
Loss on disposal of fixed assets	(505)
Interest income	<u>7,213</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	\$ <u>498,321</u>
LOSS BEFORE CONTRIBUTIONS	\$ <u>(79,447)</u>
CAPITAL CONTRIBUTIONS	
State and federal grants	\$ <u>59,043</u>
CHANGE IN NET ASSETS	\$ (20,404)
NET ASSETS - OCTOBER 1, 2005	<u>620,687</u>
NET ASSETS - SEPTEMBER 30, 2006	<u>\$ 600,283</u>

See notes to financial statements

INTERURBAN TRANSIT AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2006

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from user charges	\$ 48,520
Payments to employees for services	(289,643)
Payments to suppliers for goods and services	(153,091)
Other payments	<u>(129,290)</u>
NET CASH USED BY OPERATING ACTIVITIES	\$ <u>(523,504)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Nonoperating grants received	<u>\$ 490,752</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of capital assets	\$ (59,349)
Capital grants received	<u>115,814</u>
NET CASH FLOWS PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>\$ 56,465</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	\$ 6,743
Proceeds from sale of investments	170,000
Purchase of investments	<u>(95,044)</u>
NET CASH FLOWS PROVIDED BY INVESTING ACTIVITIES	<u>\$ 81,699</u>
NET INCREASE IN CASH	\$ 105,412
CASH AND EQUIVALENTS - OCTOBER 1, 2005	<u>31,195</u>
CASH AND EQUIVALENTS - SEPTEMBER 30, 2006	<u>\$ 136,607</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating loss	\$ (577,768)
Adjustments to reconcile net operating loss to net cash used by operating activities	
Depreciation expense	74,443
Change in assets and liabilities	
Receivables	(1,277)
Prepays	(3,487)
Accounts payable and accrued liabilities	<u>(15,415)</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (523,504)</u>

See notes to financial statements

INTERURBAN TRANSIT AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Interurban Transit Authority is organized as a non-profit corporation. The incorporating municipalities include the City of Saugatuck, City of the Village of Douglas and Saugatuck Township. The Authority has the capability and the authority to provide public transportation to the general public.

BASIS OF ACCOUNTING

The Authority is accounted for in a proprietary fund which accounts for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges.

The accounting policies of the Authority conform to generally accepted accounting principles as applicable to proprietary funds of governmental units, and, accordingly, the accrual basis of accounting and economic resource measurement focus are followed. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Proprietary funds distinguish operating revenues and expenses from nonoperation items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance. The government has elected not to follow subsequent private-sector guidance.

The following is a summary of the more significant accounting policies:

BANK DEPOSITS AND INVESTMENTS

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

PREPAID ITEMS

Certain payments to vendors reflect costs applicable to future years and are recorded as prepaid items.

CAPITAL ASSETS

Capital assets include property, plant and equipment. Capital assets are defined by the Authority as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

INTERURBAN TRANSIT AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Land improvements	10
Operating facility	20
Revenue vehicles	5-7
Office equipment	5-10
Yard equipment	5

COMPENSATED ABSENCES (VACATION AND SICK LEAVE)

Vacation leave is earned in varying amounts depending on the number of years of service of an employee and is made available to the employees monthly. Vacation leave must be used within 18 months after it has been earned. Any unused vacation time at the time of termination will be paid to the employee.

Sick leave is earned at a rate of five days per year. It cannot be accumulated from year to year.

Vacation or sick leave utilized during the year is recorded as a current expense. At year end, each employee's accumulated vacation leave is computed by applying their current rate of pay times total accumulated hours. The composite dollar total for all employees is entered as an accrued liability by an applicable adjusting entry posted to the liability and expense account.

RESTRICTED NET ASSETS

The Authority's policy is to first apply restricted resources when an expense is incurred for which restricted and unrestricted net assets are available.

ADVERTISING COSTS

The Authority expenses all advertising costs as incurred. Advertising expense was \$10,765 for the year ended September 30, 2006.

MANAGEMENT ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statement and reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 – DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Sections 129.91 authorizes the Authority to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated

INTERURBAN TRANSIT AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivision which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Authority Board has designated three banks for the deposit of Authority funds. The investment policy adopted by the Board is in accordance with Public Act 196 of 1997.

At year-end the Authority's deposits and investments were reported in the basic financial statements in the following categories:

Cash and cash equivalents	\$136,607
Investments	<u>95,044</u>
Total	<u>\$231,651</u>

The breakdown between deposits and investments is as follows:

Bank deposits (checking and savings accounts, certificates of deposit)	\$231,591
Petty cash and cash on hand	<u>60</u>
Total	<u>\$231,651</u>

The bank balance of the Authority's deposits is \$246,985 of which \$226,057 is covered by federal depository insurance and \$20,928 uninsured and uncollateralized.

NOTE 3 – CAPITAL ASSETS

Capital assets consist of the following as of September 30, 2006:

	Purchased With Interurban Funds	Purchased With Capital Grants	Total
Land	\$ 31	\$ 27,500	\$ 27,531
Land improvements	17,732	-	17,732
Operating facility	81,686	330,571	412,257
Revenue vehicles	1,489	478,865	480,354
Office equipment	10,123	34,395	44,518
Yard equipment	<u>8,395</u>	<u>31,699</u>	<u>40,094</u>
Totals	\$119,456	\$ 903,030	\$1,022,486
Less accumulated depreciation	<u>(86,619)</u>	<u>(663,537)</u>	<u>(750,156)</u>
Totals	<u>\$ 32,837</u>	<u>\$ 239,493</u>	<u>\$ 272,330</u>

INTERURBAN TRANSIT AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

NOTE 3 – CAPITAL ASSETS (CONTINUED)

Capital asset activity for the current year was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 27,531	\$ -	\$ -	\$ 27,531
Subtotal	\$ 27,531	\$ -	\$ -	\$ 27,531
Capital assets being depreciated				
Land improvements	\$ 17,732	\$ -	\$ -	\$ 17,732
Operating facility	412,257	-	-	412,257
Revenue vehicles	478,762	48,726	(47,134)	480,354
Office equipment	41,471	10,661	(7,614)	44,518
Yard equipment	40,094	-	-	40,094
Subtotal	\$990,316	\$ 59,387	\$(54,748)	\$994,955
Less accumulated depreciation for				
Land improvements	\$ 9,524	\$ 1,045	\$ -	\$ 10,569
Operating facility	286,271	21,668	-	307,939
Revenue vehicles	358,967	48,965	(47,134)	360,798
Office equipment	35,062	2,765	(7,071)	30,756
Yard equipment	40,094	-	-	40,094
Subtotal	\$729,918	\$ 74,443	\$(54,205)	\$750,156
Net capital assets being depreciated	\$260,398	\$(15,056)	\$ (543)	\$244,799
Total capital assets – net of depreciation	\$287,929	\$(15,056)	\$ (543)	\$272,330

Depreciation expense was \$74,443 for the year ended September 30, 2006.

When federal or state funded assets are withdrawn from a public transportation service, the disposition of the assets are to be determined by the Michigan Department of Transportation.

INTERURBAN TRANSIT AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

NOTE 4 – DEFINED BENEFIT PENSION PLAN

PLAN DESCRIPTION

The Authority's defined benefit pension plan, which consists of participation in the Municipal Employees' Retirement System of Michigan, provides retirement, disability and death benefits to plan members and beneficiaries. The Municipal Employees' Retirement System of Michigan ("System") is an agent multiple-employer pension plan administered by the Retirement Board of the Municipal Employees' Retirement System of Michigan. The authority to establish and amend the benefit provisions of the plan rests with the System's Retirement Board; the provisions of the Municipal Employees' Retirement Act of 1984, as amended by 1996 Public Act 220; and the System's plan document. The Authority adopts its specific benefit provision. The System issues a publicly available financial report that includes financial statements and required supplemental information for the Municipal Employees' Retirement System of Michigan. That report may be obtained by writing to the Municipal Employees' Retirement System of Michigan, 447 North Canal Road, Lansing, Michigan 48917 or by calling 1-800-767-6377.

FUNDING POLICY

The Authority's plan members do not contribute to the System. The Authority is required to contribute at an actuarially determined rate. The required contribution for the period October 1, 2005 through September 30, 2006 was based on the annual actuarial valuation as of December 31, 2003. The net rate used was 6.98% of a projected annual covered payroll. The contribution requirements of plan members are selected by the Authority. The contribution requirements of the Authority are established and may be amended by the System's Retirement Board, yet the Authority selects its specific benefit provision.

ANNUAL PENSION COST

For the year ended September 30, 2006, the Authority's annual pension cost of \$15,175 for participation in the System was equal to the Authority's required and actual contributions. The required contribution was determined as part of the December 31, 2003 actuarial valuation using the entry age normal cost method. This funding method has been used since the December 31, 1996 valuation. The assumptions and methods used in the December 31, 2003 actuarial valuation are those adopted by the Retirement Board. The actuarial assumptions were last revised as of December 31, 2000 to reflect the results of the study of plan experience covering the period from December 31, 1993 through December 31, 1998. Prior to then, the attained age normal cost method had been in effect. The actuarial assumptions used in the December 31, 2003 valuation included a long-term net investment yield rate of 8% and projected annual salary increases of 4.5%, plus a percentage based on an age-related scale to reflect merit, longevity and promotional salary increases ranging from 0% to 4.16%. The actuarial value of the Authority's plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five year period. The Authority's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis which remains stable at 30 years.

INTERURBAN TRANSIT AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

NOTE 4 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

The following is a schedule of funding progress relating to the Authority's participation in the System:

Actuarial	Actuarial	Actuarial	(Overfunded)			Unfunded
Valuation	Value of	Liability-Entry	Unfunded			Actuarial Accrued
<u>Date</u>	<u>Assets</u>	<u>Age Normal</u>	<u>Accrued</u>	<u>Funded</u>	<u>Covered</u>	<u>Liability as a</u>
		<u>Cost Method</u>	<u>Liability</u>	<u>Ratio</u>	<u>Payroll</u>	<u>Percentage of</u>
						<u>Covered Payroll</u>
12/31/03	\$540,097	\$539,528	\$ (569)	100%	\$209,035	0%
12/31/04	598,063	581,109	(16,954)	103	226,962	0
12/31/05	654,544	621,464	(33,080)	105	209,253	0

The following is a schedule of annual pension cost and net pension obligation relating to the Authority's participation in the System:

Fiscal	Annual	Percentage of	Net
Year	Pension	Annual Pension	Pension
<u>Ending</u>	<u>Cost</u>	<u>Cost Contributed</u>	<u>Obligation</u>
09/30/04	\$19,492	100%	\$0
09/30/05	16,856	100	0
09/30/06	15,175	100	0

NOTE 5 – COST ALLOCATION PLANS

The Authority has cost allocation plans approved by the Bus Transit Division of the Michigan Department of Transportation for all allocated expenses. These plans have been adhered to in the preparation of the financial statements.

NOTE 6 – RISK MANAGEMENT

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical and workman's compensation benefits provided to employees.

The Authority is a member of the Michigan Transit Pool, a public entity risk pool, which provides insurance coverage for State of Michigan transit authorities. As a public entity risk pool, the pool is comprised of a cooperative group of governmental entities that have joined together to finance certain risks. As a participant in this pool, the Authority is insured under a retrospectively rated policy whereby the initial premium is adjusted based on actual experience during the period of coverage. Insurance coverage provided by participation in this pool includes general and automobile liability protection and direct property damage coverage. In addition, liability, property and crime coverage is provided for as a participant in another public entity risk pool, the Michigan Municipal Risk Management Authority. No additional accrual has been made on the books of the Authority as of September 30, 2006 for any potential amounts due as a result of participating in these public entity risk pools.

INTERURBAN TRANSIT AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

NOTE 6 – RISK MANAGEMENT (CONTINUED)

The Authority purchases commercial insurance for workman's compensation coverage and medical benefits. Settled claims for insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverage obtained through insurance during the past year.

NOTE 7 – SUBSEQUENT EVENTS

On August 6, 2002, the Authority was awarded a grant from the Michigan Department of Transportation for two 11 seat passenger buses with lifts. The vehicles are valued at \$101,477. As of September 30, 2006, one vehicle has not been received by the Authority. The capitalized cost of the vehicle and the related income will be recorded when the vehicle is received by the Authority.

On September 14, 2004, the Authority was awarded a grant from the Michigan Department of Transportation for a 10 seat passenger bus with a lift. As of September 30, 2006, \$52,652 was received by the Authority for reimbursement for the purchase of this bus. The remaining \$24,653 of this grant will be used to purchase a small shuttle bus. The capitalized cost of the vehicle and the related income will be recorded when the vehicle is received by the Authority.

On February 24, 2006, the Authority was awarded a grant from the Michigan Department of Transportation for a bus. The vehicle is valued at \$55,000. As of the September 30, 2006, the bus has not been purchased. The capitalized cost of the vehicle and the related income will be recorded when the vehicle is received.

SUPPLEMENTARY INFORMATION

November 16, 2006

Board of Directors
Interurban Transit Authority
Douglas, Michigan

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

Our report on our audit of the financial statements of Interurban Transit Authority, County of Allegan, Michigan for the year ended September 30, 2006 precedes the basic financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedules of supplementary information, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information, except for that portion marked "unaudited", on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

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INTERURBAN TRANSIT AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
SCHEDULE OF NONOPERATING REVENUES
YEAR ENDED SEPTEMBER 30, 2006

SCHEDULE 1

NONOPERATING REVENUES (EXPENSES) - LOCAL

Local operating grants	
Tax levy	\$ 173,493
Loss on disposal of fixed assets	(505)
Interest income	<u>7,213</u>

TOTAL NONOPERATING REVENUES (EXPENSES) - LOCAL	\$ <u>180,201</u>
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NONOPERATING REVENUES - STATE AND FEDERAL

State of Michigan operating grants	
Formula operating assistance (Act 51)	
Fiscal year 2005 and prior years	\$ 4,297
Fiscal year 2006	<u>219,869</u>
	\$ 224,166
State and Federal capital grants	59,043
Federal operating grants	
U.S. DOT operating grant - Section 5311	
Contract 2002-0048	<u>93,954</u>

TOTAL NONOPERATING REVENUES - STATE AND FEDERAL	\$ <u>377,163</u>
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TOTAL NONOPERATING REVENUES	\$ <u>557,364</u>
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INTERURBAN TRANSIT AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
SCHEDULE OF OPERATING EXPENSES
YEAR ENDED SEPTEMBER 30, 2006

SCHEDULE 2

	<u>Operations</u>	<u>Maintenance</u>	<u>General Administration</u>	<u>Total System</u>
LABOR				
Operators' salaries and wages	\$ 147,554	\$ -	\$ -	\$ 147,554
Other salaries and wages	2,904	31,843	45,344	80,091
Dispatchers' salaries and wages	62,528	-	-	62,528
FRINGE BENEFITS	83,658	23,704	22,404	129,766
SERVICES				
Advertising fees	-	-	10,765	10,765
Other services	3,901	5,438	12,298	21,637
MATERIALS AND SUPPLIES CONSUMED				
Fuel and lubricants	39,052	-	-	39,052
Tires and tubes	1,482	-	-	1,482
Other materials and supplies	2,522	5,460	1,999	9,981
UTILITIES	1,262	936	7,606	9,804
CASUALTY AND LIABILITY COSTS				
Premium for public liability	28,669	-	-	28,669
Other insurance	718	-	8,157	8,875
MISCELLANEOUS EXPENSES				
Travel and meetings	-	-	1,084	1,084
Other miscellaneous expenses	509	-	1,325	1,834
DEPRECIATION	<u>48,965</u>	<u>-</u>	<u>25,478</u>	<u>74,443</u>
TOTAL EXPENSES	<u>\$ 423,724</u>	<u>\$ 67,381</u>	<u>\$ 136,460</u>	<u>\$ 627,565</u>

INTERURBAN TRANSIT AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
SCHEDULE OF EXPENSES BY CONTRACT AND GENERAL OPERATIONS
YEAR ENDED SEPTEMBER 30, 2006

SCHEDULE 3

	<u>Operations</u>	<u>Total</u>
Labor	\$ 290,173	\$ 290,173
Fringe benefits	129,766	129,766
Services	32,402	32,402
Materials and supplies consumed	50,515	50,515
Utilities	9,804	9,804
Casualty and liability costs	37,544	37,544
Miscellaneous expenses	2,918	2,918
Depreciation	<u>74,443</u>	<u>74,443</u>
 TOTAL	 \$ 627,565	 \$ 627,565
Less ineligible expenses	<u>74,894</u>	<u>74,894</u>
 TOTAL ELIGIBLE EXPENSES	 <u>\$ 552,671</u>	 <u>\$ 552,671</u>

INTERURBAN TRANSIT AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
NET ELIGIBLE COSTS COMPUTATIONS OF GENERAL OPERATIONS
YEAR ENDED SEPTEMBER 30, 2006

SCHEDULE 4

	Federal Section 5311	State Operating Assistance
EXPENSES		
Labor	\$ 290,173	\$ 290,173
Fringe benefits	129,766	129,766
Services	32,402	32,402
Materials and supplies consumed	50,515	50,515
Utilities	9,804	9,804
Casualty and liability costs	37,544	37,544
Miscellaneous expenses	2,918	2,918
Depreciation	<u>74,443</u>	<u>74,443</u>
 TOTAL EXPENSES	 <u>\$ 627,565</u>	 <u>\$ 627,565</u>
LESS INELIGIBLE EXPENSES		
Depreciation	\$ 68,813	\$ 67,373
Miscellaneous	81	81
Services	<u>6,000</u>	<u>-</u>
 TOTAL INELIGIBLE EXPENSES	 <u>\$ 74,894</u>	 <u>\$ 67,454</u>
 NET ELIGIBLE EXPENSES	 <u>\$ 552,671</u>	 <u>\$ 560,111</u>
 MAXIMUM SECTION 5311 REIMBURSEMENT (17.0%)	 <u>\$ 93,954</u>	
 ELIGIBLE FOR STATE OPERATING ASSISTANCE		
 STATE OPERATING ASSISTANCE (39.2545%)		 <u>\$ 219,869</u>

INTERURBAN TRANSIT AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS/INELIGIBLE EXPENSES
YEAR ENDED SEPTEMBER 30, 2006

SCHEDULE 5

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Ineligible/Questioned Costs</u>	
		Federal Section 5311 per OMB Circular A-87	State Operating Assistance per Revenue and Expense Manual
A. Operating Grants			
	1. Depreciation: Depreciation accrued on contributed capital and depreciation accrued on cost overruns must be deducted as an ineligible expense.	\$68,813	\$67,373
	2. Miscellaneous: A percentage of the annual dues paid to the Michigan Transit Association must be deducted as an ineligible expense.	\$ 81	\$ 81
	3. Services: The cost of the Authority's annual financial statement audit is an ineligible expense for Federal Section 5311.	\$ 6,000	\$ -
	4. Quarterly operating assistance reports for Section 5311 Operating Assistance were filed after the due dates. Following is a summary of the reports noted to be in violation.		
	First quarter 35 days late Second quarter 20 days late Third quarter 34 days late		

INTERURBAN TRANSIT AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
SCHEDULE OF FINANCIAL ASSISTANCE FEDERAL AND STATE
YEAR ENDED SEPTEMBER 30, 2006

SCHEDULE 6

<u>FEDERAL GRANTOR/PASS THRU GRANTOR/PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>STATE GRANTOR NUMBER</u>	<u>PROGRAM OR AWARD AMOUNT</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
State and federal operating assistance Computations based on operating expenses Passed through MDOT			
Operating assistance – Section 5311	20.509	2002-0048	\$ 93,954
Operating assistance – Section 5311	20.509	2002-0048	
Operating assistance – Section 5311	20.509	2002-0048	
<u>MICHIGAN DEPARTMENT OF TRANSPORTATION</u>			
Operating assistance – Act 51	N/A	9/30/2006	219,869
Operating assistance – Act 51	N/A	9/30/2005	
Operating assistance – Act 51	N/A	9/30/2004	
Operating assistance – Act 51	N/A	9/30/2002	
Operating assistance – Act 51	N/A	9/30/2001	
Operating assistance – Act 51	N/A	9/30/2000	
TOTAL OPERATING ASSISTANCE			<u>\$313,823</u>
<u>MICHIGAN DEPARTMENT OF TRANSPORTATION</u>			
Capital assistance		2002-0048	\$
Capital assistance		* 2002-0048	
Capital assistance		2002-0048	
Capital assistance		* 2002-0048	
Capital assistance		* 2002-0048	
Capital assistance		* 2002-0048	<u>55,000</u>
TOTAL CAPITAL ASSISTANCE			<u>\$ 55,000</u>

* This grant is for the purchase of a vehicle purchased directly by MDOT

<u>FEDERAL RECEIPTS\ REVENUE</u>	<u>STATE RECEIPTS\ REVENUE</u>	<u>DISBURSEMENTS/ EXPENDITURES</u>	<u>AMOUNT REMAINING</u>
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		\$ 627,565	
\$ 58,339			\$ 35,615
5,549			3,477
			1,122

	\$ 218,674		1,195
	8,525		8,525
	9,072		
	1,515		
	1,959		
	<u>14,709</u>		

<u>\$ 63,888</u>	<u>\$ 254,454</u>	<u>\$ 627,565</u>	<u>\$ 49,934</u>
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\$	\$ 6,311	\$ 6,311	\$
			48,347
	4,000	4,000	
	48,207	48,207	
			24,653
			<u>55,000</u>

<u>\$</u>	<u>\$ 58,518</u>	<u>\$ 58,518</u>	<u>\$ 128,000</u>
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INTERURBAN TRANSIT AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
SCHEDULE OF VEHICLE MILES (UNAUDITED)
YEAR ENDED SEPTEMBER 30, 2006

SCHEDULE 7

	Public Transportation <u>Mileage</u>
<u>DEMAND – RESPONSE</u>	
First quarter	27,186
Second quarter	27,124
Third quarter	34,665
Fourth quarter	<u>40,868</u>
 TOTAL OPERATION	 <u>126,843</u>

The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

November 16, 2006

Board of Directors
Interurban Transit Authority
Douglas, Michigan

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

We have audited the financial statements of Interurban Transit Authority, County of Allegan, Michigan as of and for the year ended September 30, 2006, and have issued our report thereon dated November 16, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

As part of obtaining reasonable assurance about whether Interurban Transit Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

In planning and performing our audit, we considered Interurban Transit Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the management and the Michigan Department of Transportation and is not intended to be and should not be used by anyone other than these specified parties.

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An independent member of BKR International

November 16, 2006

Board of Directors
Interurban Transit Authority
Douglas, Michigan

Board Members:

Thank you for the opportunity to be of service to you in performing an audit of the financial statements of Interurban Transit Authority for the year ended September 30, 2006.

In planning and performing our audit of the financial statements of Interurban Transit Authority (the Authority), we noted the following matter that we would like to bring to your attention.

Quarterly State Filings

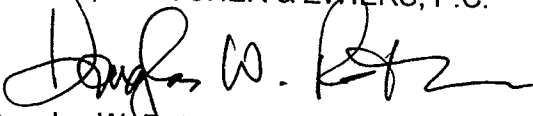
The Authority is required to file quarterly financial and mileage data reports to the State by the 10th day following the quarter. It was noted during our compliance testing of the state operating grant that three out of the four quarterly reports were submitted to the state past the due date. We recommend that management continue to monitor the reporting process to ensure that filing is done on a timely basis for compliance with state grant regulations.

This report is intended solely for the information and use of the Board of Directors and management.

If you have any questions regarding the financial statements or the above recommendations and suggestions, we would be pleased to discuss them.

Sincerely,

FERRIS, BUSSCHER & ZWIERS, P.C.


Douglas W. Rotman, C.P.A.

DWR/kc

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